

Malta - in the headlights

Malta has consistently punched above its weight in the gaming industry by recognising and exploiting the opportunities the sector has to offer

***MALTA WAS THE FIRST EUROPEAN** country to regulate remote gaming back in 2004. It is also one of a handful of European countries which runs its land-based gaming sector side-by-side with its remote gaming industry in a fairly amicable marriage of convenience. Part one of this market report will look at the land-based sector covering the casinos and the new street gaming market whilst part two in the next issue will focus on the remote gaming sector.*

“Size isn’t everything.” So they say. And as the smallest country in Europe, Malta is proving that these words of wisdom are possibly quite true particularly in reference to its overall business, financial and gaming market.

With a proven remote gambling market and a small but controlled casino market the country has just introduced new regulations to bring VLTs into the street market which is expected to open up the industry even further.

Malta is an archipelago made up of several islands situated in the centre of the Mediterranean between Europe and North Africa and just 90 kilometres south of Sicily. Covering just over 300 sq.m in land area, it is one of the world’s smallest and most densely populated countries. However despite its tiny size fortunately its cross roads location has given Malta

great strategic importance over the years.

The name Malta is thought to derive from a Greek word meaning ‘honey’ and the Greeks often referred to the island as ‘honey-sweet’ or ‘land of honey.’ Various powers have ruled the islands until it gained independence in 1964 and became a republic in 1974.

The origin of Malta dates back to around 5200BC when people from neighbouring Sicily decided to cross the narrow waters and investigate. They settled on the island primarily in caves and later huts. The Sicani were the only known tribe to have inhabited the island at this time and they grew cereals and raised domestic livestock.

Around 1200BC the Phoenician traders and mariners settled in Malta for around 320 years and it is thought this is where the Maltese language was derived from. Around 700BC the Ancient Greeks arrived in Malta especially in the area where Valletta now stands later followed by Phoenician traders who would stop on their trade route.

Arabs later ruled Malta for around two centuries until the Norman’s invaded and during this period Malta became part of the newly formed Kingdom of Sicily and the catholic church was re-instated which continues as the main religion today.



Malta is classed as an ‘advanced economy’, a title given to 32 other countries by the IMF. Until the 1800s the country depended on cotton, tobacco and its shipyards for exports. The opening of the Suez Canal in 1869 was a great boost to the economy at this time.

The French took over Malta in the late 1700s although this rule only lasted two years and the Maltese rebelled and with the help of the British they were ousted in 1800. The British then occupied the island for the next 15 years whilst the fate of the island was decided.

Malta finally asked the British to stay and this was finally legalised in 1815 when Malta became a part of the British Empire as part of the Treaty of Paris and the island was used primarily as a shipping way-station and fleet headquarters.

Malta supported the UK through both world wars and remained in the Commonwealth. Finally in September 1964 Malta achieved independence and in 1971 the Malta Labour Party won the



general elections which resulted in the country declaring its self a republic in December 1974. The country adopted a policy of neutrality in 1980 and in 2004 joined the European Union and in 2008 took on the Euro currency.

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Towards the end of the 19th century however, due to less activity at the shipyards, the economy began to decline and by the 1940s was considered to be in serious trouble. However between 2005

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and 2007 Malta recorded an average GDP growth rate of 3.7 per cent making it one of the fastest growing economies in the European Union.

But it's not all a bed of roses. Malta only produces 20 per cent of its food needs, has limited freshwater supplies and no domestic energy sources. The economy is dependent on foreign trade, manufacturing and tourism and relies heavily on neighbouring countries and therefore in 2009 the country slipped into recession.

Although its location has proved to be a huge advantage there is also a downside in that it is a target for illegal immigrants, and these have been a drain on Malta's political and economic resources.

Following a 2.1 per cent contraction in 2009, GDP however grew by 1.6 per cent in 2010 and 2011 is expected to see a 2.8 per cent rise. Unemployment rate is around 7 per cent.

Malta is recovering. The banking sector weathered the storm and is now in a position to aid recovery whilst the government is undertaking a support package for tourism and manufacturing. The government has recently privatised some state owned firms in order to join the EU and has also privatised telecommunications, postal services, shipyards and shipbuilding whilst public transport is due to be privatised this year.

Prior to independence Malta was a Fortress economy and many of the Maltese worked within the British Forces or in related industries. Since independence a sustainable economy has been found in tourism, industry and services.

Today tourism is responsible for around 25 per cent of Malta's economy. However statistics have remained somewhat static. The peak was some 10 or 12 years ago when the islands received one million visitors. Despite a slight drop in 2006 the number has remained fairly similar.

Today Malta sees around 1.2 million tourists each year and the infrastructure has increased dramatically with good quality hotels. The country also pushes itself as a medical tourism destination and in 2007 a number of low cost airlines started operations to and from the islands to mainland Europe and this is expected to see further increases in visitors.

For the last 40 years the islands have had to rely on the tour operator but the government has recently adopted a new policy for tourism and since 2006 the Malta Tourism Authority has worked on re-branding looking at seven niche markets that embrace the attractions of the islands. In addition in 2008 two five star hotels opened their doors for the first time on the island.

The majority of visitors come from the UK and Italy. In 2010 almost 1.2 million tourists visited Malta during the first 10 months of year bringing in some €1m, a record for the period both in terms of numbers and expenditure.

Only three of the largest islands – Malta, Gozo and Comino – are inhabited and are often described as 'one big open-air museum with 7,000 years of history to tap into'. Development plans are however being discussed for a fourth island, Manoel Island.

Analysis

MALTA

The main island of Malta is just 27 kilometres long and 14.5 kilometres at its widest point and it takes just 45 minutes to cross the island. The island is rocky and is mainly made up of limestone and is known for its good harbours which are stretched along the numerous bays indented into the island. The landscape otherwise is fairly flat and is made up of low hills and the highest point is Ta' Dmejrek which stands at 253m. There are no permanent lakes or rivers on Malta either.

Meanwhile Gozo is known for its tranquillity and is a green and rural island with Baroque churches and old stone farmhouses and prehistoric temples. Gozo is just 67 sq.km and home to around 25,000 of the 400,000 Maltese inhabitants.

Comino lies between Malta and is a haven for water activities and walkers. The island's Blue Lagoon offers safe bathing in turquoise waters.

Malta is made up of many small towns which together form one Larger Urban Zone (LUZ) with a population of around 368,000. There are 68 local councils of which 54 are in Malta and 14 in Gozo.

THE GAMING MARKET

Despite its size Malta has a very successful gaming market. During 2009 the total gaming revenue amounted to €43.4m of which €40.5 was paid to the Maltese government in terms of taxes.

In 2009 there were a total of 10 land based gaming licenses whilst the number of remote licenses reached 330. Of these 10, six operate bingo halls whilst four operate casinos. The six licensed bingo hall operators are: Deluxe Club in Bugibba, Embassy Entertainment in Valetta, Fair Play in Qawra, Fair Play in St Julians, Main Street in Paola and Preluna Bingo in Silema.

The bingo sector saw revenues of €642,220 in 2009, a 13 per cent decrease. Commercial bingo, or tombola as it is known locally, is very popular in Malta and is based on the Spanish game of bingo with number from one to 90 and prizes in cash for a line, house or progressive.

- The land based and remote gaming sectors generated over 5,000 direct employees.
- The year 2009 saw €43.4m generated from the lotteries and gaming sector from gaming duty, application fees and licenses fees.
- The National lottery amounted to €11.96m by the end of 2009.



- The land based casino industry generated €9.5m by the end of 2009.
- The five bingo halls saw total revenues of €642,220 in 2009.

Prior to 2009 amusement and gaming machines could be found in most places dotted around Malta and were accessible to minors and often operated illegally. The Maltese street and arcade gaming

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sector has been like a bad apple in the Maltese gaming cart.

Back in 2007 gaming halls began to spring up like weeds around Malta in a relatively free-for-all market which lacked licensing.

The Lotteries and Gaming Authority had not issued licenses to these operators and it was reported up to 100 gaming halls



MALTA: VITAL STATISTICS

Capital:
Valletta

Population:
408,000

Land Area:
316 sq.km

Median age:
40 years

Languages:
Maltese (official) 90%, English (official) 6%, multilingual 3%, other.

Ethnic Groups:
Maltese

Religions:
Roman Catholic (98%)

Currency:
Euro

Government:
Republic

Chief of State:
President George Abela (since 2009)

Head of Government:
Prime Minister Lawrence Gonzi (since 2004)

Cabinet:
Cabinet appointed by president on advice of the prime minister

Elections: President elected by a resolution of the House of Representatives for a five year term. Next election 2014. Leader of majority party usually appointed Prime Minister for five year term.

GREECE AT A GLANCE:

CASINOS:	4
CASINO SLOTS:	674
CASINO TABLES:	135
GAMING REVENUE:	€43.4m

opened up all over the island around this time. All that was needed was a 'change of use' permit to convert shops into gaming parlours. The shops operated VLTs without paying taxes or indeed obtaining any form of gaming license.

Traditionally amusement machines were operated in bars and clubs on a revenue-share basis. In 2005 the LGA began a public consultation process. But despite

the LGA's power to issue a license with rigorous conditions the initial applications were never processed.

In 2007 the Lotteries and Gaming Authority began a roll out plan which began with the registration of machines against a €1,000 fee per machine and additional €250 fee per machine per month. But no processing of this actually happened due to elections at the time

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which put the whole thing on hold.

Then, finally, two years ago in the summer of 2009 the police organised a massive swoop and closed down all the gaming halls. This essentially shifted some 30 per cent of business back into the casinos which at the time complained heavily about the illegal operation of such gaming machines.

However, rather than ban the street gaming machine sector and force it underground, the LGA then took a good look at Malta's prolific online gaming sector to help them draft new regulations for the gaming industry.

The remote gambling industry has existed since 2004 in Malta and is renowned across Europe as having one of the most regulated industries in Europe which has become the hallmark of the country's success in this industry.

The gaming authority has since issued two new regulations for the land based sector which came into force over the last few months and will tighten up the gaming hall sector and introduce more control. With all this in place the Maltese industry could now expect to earn a additional €12m in taxes.

The Lotteries and Other Games Act (LOGA) was approved in December 2009 which saw two amendments:

1. The Amusement Machines Regulation 2011 came into force on March 15 2011 and covers only pure amusement machines (non-payment).

- Licenses are valid for one year but automatically renewable. All machines must be CE certified.
- Class 1 license is for the suppliers of amusement machines and applicants shall pay a one off application fee and annual license fee.
- Class 2 is for the operation of amusement machines and applicants shall pay a one off application fee and annual license fee.
- Amusement machines cannot payout any prize, reward or benefits of a monetary value. No soft toys will be allowed and as such crane machines are not permitted.
- They cannot be located in a Class 3 or Class 4 gaming hall.
- Maximum price to play shall not be more than €2. 'Other' amusement machines (pool, kiddie rides etc) shall not be more than €1.

Analysis

MALTA



- Previously machines were licensed by the police and these operators had a two month period from March 15 to apply for a new license from the LGA.
- 2. The Gaming Devices Regulations 2011 came into force May 16 2011 to license and regulate gaming devices. This act includes the following points:
 - There are four licenses available which are valid for one year and must be approved each year.
 - Class 1 is for the manufacturer, assembly and repair or service of gaming devices. Machines must pay out on average at least 85 per cent. Maximum stake is €5 whilst payouts should not exceed €1,000 whilst progressive jackpots shall not exceed €2,000.
 - All gaming devices must be connected to a central monitoring system operated by the authority.
 - They must also provide certain information to the player such as rules, warnings, game information, odds of winning, average winnings, duration of play etc.

LICENSE FEES

License	Application fee	License fee	Registration fee
Class 1	€2,000	€1,000	€80 per machine
Class 2	€1,000	€1,000	€80 per machine
'Other'*	-	€100	€70 per machine

*amusement machines such as billiards, pool, table soccer and kiddie rides

The Lotteries and Gaming Authority is a regulatory body responsible for all gaming activities in Malta from amusement machines, casinos, bingo hall, gaming machines, sports betting, horse racing, lottery and remote gaming. It is headed by Chairman Nicholas Xuereb and four board members.

- Class 2 is for marketing, distribution, sale or lease of gaming device. These require a one-off application fee plus an annual license fee. Licenses are issued for a one year term.
- Class 3 is for the operation of gaming hall. Again a one off application fee plus a monthly license fee per gaming device in each premises plus a monthly placement tax of either €400 per gaming device or 20 per cent of the gross monthly profits (whichever is higher). Licenses are issued for one year.
- Class 3 gaming premises must be approved and cannot be within 75m of various locations such as schools, places of worship, playgrounds etc and must be solely gaming arcades. Gaming

arcades can only be open from 11am until 11pm.

- Transactions over €2,000 must be recorded by operators to avoid money laundering.
- Each arcade can site no more than one gaming device per 2sq.m of area and a maximum of 10 machines. Each arcade must be equipped with CCTV on 24/7. Players over the age of 18 are permitted and must be registered and self barring can apply.
- Class 3 license holders must take a bank guarantee for securing payment of prizes etc and must not be less than €500 x the number of gaming machines in the approved premises. The guarantee must remain valid for a period of one year.
- Class 4 license is for the operation of the central monitoring system and is valid for one year.
- Class 4 licensees must locate all the equipment in a secure facility and have total access to the equipment and data.
- Fines for anyone contravening the regulations are from €3,000 up to

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€235,000 whilst inspectors can examine machines and venues.

- Two directives to support these regulations have been published – The Locations for Gaming Parlours Directive and the Gaming Parlours No Objection Certificate Directive.
- Applications were received as from May 16.

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The authority was set up in 2001 although official launched in 2004 and falls under the control of the Ministry of Finance.

It is the guardian of the Gaming Act of 1998 which controls the casino sector and The Lotteries and Other Games Act 2001 which governs all other sectors of the gaming industry. The Lotteries and Other Games Act 2001 was amended in 2008 by the European Union Act.

The Maltese gaming sector has seen extraordinary growth of the last few years most particularly within its remote gaming sector (part II). However one of the key successes for the land based sector is the strong regulatory framework.

LICENSE FEES AND TAXES

License or authorisation	Application fee	License fee	Placement tax	One time approval fee.
Class 1	€2,000	€2,000 per year	-	-
Class 2	€2,000	€2,000 per year	-	-
Class 3	€500	€125 per machine	€400 per machine per month or 20% of GGR per month per machine (whichever is higher)	-
Class 4	€2,000	-	-	-
Approval of gaming devices	-	-	-	€175 per machine
Approval of premises	-	€500 per premises per year	-	€2,500 per premises
Approval of employees	-	-	-	€25 per employee

Meanwhile the National Lottery was set up as a government monopoly in 1934 and was later privatised in 2004. During the same year Maltco Lotteries Ltd was given an exclusive license to operate the National Lottery which is valid for seven years. Intralot holds a 73 per cent share whilst the remaining is owned by Maltese businessmen.

Maltco operates several games such as Super 5 lottery, Lotto, instant lotteries, U*BET Fixed Odds Betting and Horseracing, Quick Keno and Bingo 75. Gaming duty from the lottery amounted

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to €11.96m by the end of 2009.

THE CASINO INDUSTRY

There are four land based casinos which are operated by three companies. The first casino was opened in Malta in 1964 as the Dragonara Casino which was originally owned by the government but sold to a private operator in 1999 and then in 2010 a new concession took over the operation.

The second casino to open was the Oracle Casino in Bugibba in September 1998 followed by the Casino di Venezia in



August 2001. In June 2006 the Portomaso Casino opened its doors.

The Oracle and Portomaso are owned by The Tumas Group's casino company Tomino which currently has around 52 per cent of the casino business via the two casinos (governed by a single license); The Dragonara which has 42 per cent of the market share whilst the Venice municipality Casino di Venezia in Vittoriosa has just a six per cent market share in terms of slots and tables.

In 2006 Tomino increased its dominance of the market with the Portomaso casino for which it was granted a special concession in the form of a split license (ie: two for one). Meanwhile an additional change in policy enabled the casinos to increase their ratio of 10 gaming machines for each gaming table to 15. This enabled Tomino to spread out its gaming assets across both casinos.

Although the casinos are licensed by the LGA, under the Gaming Act 1998, the license is conditional to a concession

The new gaming law is expected to have an affect on the casino market. One of the main issues is the 25 year old age limit for players in casinos compared to the 18 year age limit for the new gaming halls.

which can only be granted by the government. The casino sector saw a total of €9.5m in revenue in 2009, a five per cent drop on the previous year attributed to the financial crisis.

The main points of the Gaming Act 1998 include:

- Operating companies must have a company registered in Malta
- Casino licenses are issued for 10 years and subject to an annual license fee
- Citizens of Malta must be over the age of 25 years to enter a casino. Any other foreign citizens must be over the age of 18 years.
- Any offence against the act is subject to fines of between €6,000 and €232,000 or up to two years imprisonment.
- Taxation on table games is 36 per cent of the gross takings
- Taxation on gross takings generated by junkets on table games is 7.5 per cent.
- Taxation on slots is 40 per cent of the gross takings.
- Taxation on gross takings generated by junkets on slots is 12.5 per cent.

In 2008 there was a drop of 9.2 per cent in revenue for the government from slot machines in casinos compared to the previous year. The loss was attributed to the influx of 'illegal' gaming halls which began to spring up around the island.

The Tumas Group which operates the Oracle and Portomaso casinos reported a "gradual but persistent decline in turnover" of its casino business activity during this period and say their losses were around 9.2 per cent in 2008.

A spokesman said: "The gaming industry continued to suffer from the unregulated VLT operations until the latter part of 2009 when concrete action by the authorities forced these outlets to close down. Overall there was an improvement in business over last year, mainly coming from returned slots business and through cost cutting."

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Yorgen Fenech, CEO of Tumas Gaming Ltd said: "The new street gaming market has a very particular legislation. We



anticipate a slight decrease in slot machine turnover obviously. What's abnormal is that an 18 year old Maltese national can visit these parlours whereas they cannot visit local casinos. Foreign visitors of course have the same 18 year old age restrictions.

"However with the restrictions imposed on these shops we believe that the casino industry will hold its position. We are confident that through our international campaigns offering immense value to junket players and the world's top poker events we will keep sustaining the huge growth we have experienced in the past three years."

DRAGONARA CASINO

Dragonara is located in a magnificent 1870 Summer Palace which is located on the edge of the coast at St Julian's and

still retains much of its original architecture and interior design features. The site was converted into a casino in 1964 and at the time operated table games only and was run by the Kursaal Company. When Kursaal gave up its interest in the 1980s the casino was operated under a concession from the Maltese government operated by Dragonara Casino Ltd and French group Accor Lucien Barriere.

In May 2009 the government offered the tender for a new 10 years concession. There were three bidders - the current operators Dragonara Ltd, Tomino Ltd and Novomatic Peninsula Consortium (later called Dragonara Gaming Ltd)

Dragonara Gaming was awarded the concession with a €12m offer in July 2010 and the company is made up of 60

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per cent shares held by Pinnacle Gaming Group and Bianchi Group and 40 per cent by Austria's Novomatic. Pinnacle was set up by Johann Schembri, Joseph Vella and Joseph Scicluna and is a large operator of the Fairplay gaming halls and has been active in Malta since the late 1990s. The Fairplay outlets, (except the bingo halls) were closed down in August 2009 just a week before the company submitted its bid for the Dragonara casino concession.

The casino was quite run down and had its last renovation in 1999. The new owners have since refurbished the casino and it has been restored to its former glory and today offers 18 tables and 250 slots, the majority of which are AGI's Novostar SL2 and Super-V+ Gaminator machines. All machines are equipped with TITO. In addition there is a Novo Multi Roulette and Novo Flying Blackjack



with two wheels and 28 terminals. The second phase of the refurbishment will take place in the Slots Palace area with the aim of adding more gaming positions, international poker tournaments and further entertainment facilities.

PORTOMASO CASINO

This casino was opened in June 2006 with a grand gala night located in the elegant marina development of Portomaso in the district of St Julian's on the north eastern coast. The casino has a five star Hilton Hotel adjacent which provides guests with 406 hotel rooms, 420 luxury apartments, a yacht marina, conference centre, 23 storey business tower and bars and restaurants. The casino is situated on 1,100 sq.m area and offers 140 slots, 90 poker tables and 14 gaming tables. The yearly attendance is around 200,000.

Both the Oracle Casino and Portomaso are owned by Tumas Gaming Ltd (subsidiary of Tumas Group). Tumas Group was founded in the late 1960s and has interests in real estate, retail, hospitality and leisure and property development. In the 1980s the group introduced the concept of Timeshare to Malta and later Cyprus.

Tumas Development's is responsible for the Portomaso Marina development and it is their flagship project. The company's



The casino is privately owned and managed by Vittoriosa Gaming Ltd which is 60 per cent owned by Betlive and 40 per cent by the Casino Municipale di Venezia.

group turnover reached €91.63 in 2008 the company's highest ever revenue level. The hospitality and leisure sector represented 62.2 per cent of this.

ORACLE CASINO

The Oracle is located on the shores of the northern coast of the Mediterranean in St Paul's Bay. The casino was opened in 1998 and forms part of the Dolmen Resort

Complex, a four star resort in Malta. The resort has 380 guest rooms, eight superior rooms and 23 newly built suites. There are 184 slot machines and eight gaming tables, the casino is famous for its 1c slot. There is also a 10 player Organic Roulette machine.

CASINO DI VENEZIA

This casino was opened in August 2001 and is located in the Captain's Palace situated along the Vittoriosa Waterfront facing the harbour. The casino is based on the Grand Canale of Venice with decorative chandeliers and vintage tapestries. It was at the forefront of technology and in 2006 it launched an online portal enabling customers to play directly with the croupiers at the casino in real time over the web.

The ground floor of the casino is dedicated to poker and the first floor offers traditional table games. Four other first floor rooms house 100 slots in total. There is no hotel attached but the casino is partnered with four or five nearby hotels and offers a shuttle service.

The casino is privately owned and managed by Vittoriosa Gaming Ltd which is 60 per cent owned by Betlive and 40 per cent by the Casino Municipale di Venezia. CEO Fernando Orlandi is one of the founders of Eurobet.